

A Nonprofit Board of Directors – What is a Board?

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It is essential for startup nonprofits to have a strong organizational structure. This structure is built through the board of directors. But what exactly is a board of directors and what role does a board play within a nonprofit?

The board of directors is the governing body of a nonprofit. Individuals who sit on the board are responsible for overseeing the organization's activities. Board members meet periodically to discuss and vote on the affairs of the organization. At a minimum, an annual meeting must occur with all board members present. Additional meetings are likely to take place throughout the year so board members can discuss and make other necessary decisions. Board memberships are not set up to be permanent positions; most organizations have terms set up for board members, which typically fall between two and five years.

Ideally, a nonprofit's governance is different from its management (paid staff). While many small nonprofits (especially those in the startup phase) have board members serving in management positions, the ultimate goal is to have board members separate from paid staff members. The board of directors, as a governing body, should focus on the organization's mission, strategy, and goals. Staff members are responsible for the implementation of the mission. Having dual-capacity board members can often lead to problems (which will be discussed in detail in our next article) between a nonprofit's mission and how it operates.

Organizations also have officers, typically from among the board members, who are given a higher level of responsibility compared to other board members. Initial officers are elected by the board; this vote usually takes place during the organization's first meeting. Much like board members, officers usually serve terms. Typically, a nonprofit has three officers serving the role of President, Secretary, and Treasurer. Officer roles and their terms should be specifically defined in the organization's bylaws.

The President heads up the board and supervises all of the business and affairs of the board. While the President can also serve as the CEO of the organization, keep in mind that these two roles are separate; an individual cannot be compensated to hold an officer position.

The Secretary keeps the minutes of the board of directors. Additionally, the Secretary is responsible for keeping track of the organization's activities to make sure the actions of the organization are in accordance to the organization's Bylaws. The Secretary usually keeps track of the board members' contact information in order to inform the board about meetings and updates on the organization.

The Treasurer keeps account of the receipts and disbursements in the organization's books. Additionally the Treasurer is responsible for keeping track of the organization's financial condition. This is an important role because it keeps the other officers and board members informed about the financials.

Though officers are typically board members, there are no guidelines or requirements that suggest an organization cannot elect an individual outside the board to be an officer for the organization (unless the officer roles described in the organization's bylaws state otherwise). It is possible for an individual to hold two separate offices, with the exception that the President cannot also serve as the Secretary.

It is best practice to find individuals within the community who have passions and experience that aligns with the nonprofit's mission. There are no IRS guidelines in place to determine who is certified to be on a board; any individual can become a board member. There are guidelines, however, that help public charities avoid inurement.

The Role of an Executive Director of a Nonprofit Organization

by David Ingram; Updated June 29, 2018

Nonprofit organizations are structured in a slightly different way than for-profit businesses, although there are a few similarities. The makeup and duties of a nonprofit's executive management team, for example, is similar to for-profit companies in a number of ways. An executive director sits in the top spot in a nonprofit organization, and performs a range of duties similar to those of chief executive officers in corporate businesses. Understanding the role of an executive director of a nonprofit organization can shed light into how nonprofits function on the inside.

Working with the Board

An experienced board of directors can provide strategic guidance, valuable contacts and resources to nonprofit organizations. While the board of directors is responsible for making a range of vital company decisions, it is not involved in making day-to-day operational decisions.

As the most senior manager in the operational hierarchy, one of an executive director's main roles is to act as a liaison between the board of directors and the rest of the organization. Executive directors meet with the board regularly to keep them informed on operational issues and work with them to come up with strategic solutions to complex challenges.

Management Role

Executive directors oversee the heads of each department in a nonprofit, including marketing, fundraising, program development, HR management and accounting.

Executive directors can also oversee one or more lower-level executives in larger organizations.

Department leaders look to the director for strategic guidance in their areas. The executive director leads the fundraising department in setting annual income goals, for example, and works with program development managers to set standards for serving the organization's targeted needs groups. The smaller a nonprofit organization is, the more directly involved the director is likely to be in each departmental function. In the smallest nonprofits, for example, an executive director may handle all accounting duties and half of the fundraising duties, in addition to executive-level duties.

Public Relations

Executive directors fulfil vital roles outside the office and after normal business hours. Directors are expected to attend and possibly host a range of fundraising events, new program inaugurations and public relations events. Directors often speak directly with reporters, donors, government representatives and members of the community at these events, spending a good deal of time acting as the public face of the organization.

Executive directors must keep a spotless personal reputation because of the additional scrutiny, which is not always the case in for-profit businesses. A personal scandal in the life of an executive director can tarnish a nonprofit's reputation for years. In a way, a director has to consider himself on duty at all time as a representative of the organization.

Company Liaison

In addition to appearing at official events, executive directors act as a liaison between their organizations and a range of external stakeholders. Directors develop and maintain relationships with other nonprofit leaders, for example, looking for opportunities to partner with other organizations to serve good causes. Directors also work personally with leaders in the business and government world, cultivating long-term strategic partnerships or donor relationships to increase the organization's effectiveness serving unmet needs. An experienced director brings with him or her an established set of business and professional contacts that can be of significant value to an organization's mission.

Is the Salary of an Executive Director of a Non-Profit a Percentage of the Budget?

by Angela Ogunjimi

Nonprofit organizations use many formulas to set their chief executive's salary and compensation package, and making it a percent of the budget is among the most popular formulas. Additional considerations exist, especially in light of economic downturn, dwindling donations, organization size and other factors. If a nonprofit's executive director salary is too high, your organization might face backlash, and if it's too low, you'll

have trouble attracting top talent. According to Charity Navigator's survey of mid- to large-size nonprofits, the median salary of the average executive director was \$147,273 in 2010.

Budget Considerations

Some nonprofit organizations with budgets under \$1 million set their executive director's salary at around 10 percent of their budget, whereas large major nonprofits with budgets in the tens of millions sometimes use a percentage from 1 to 2.5 percent. A major reason for tying executive director's salaries to the budget is the notion that the ED's salary should not unduly burden the organization. Normally, an organization's bylaws require the board of directors to set the ED's salary, but they also have fiscal responsibility for keeping the organization afloat. When organizations can't afford to attract the best candidates, they may turn to fundraising to offer a better salary.

Additional Parameters

Nonprofits make several considerations when offering a salary to an executive director. They compete against each other, in the sense that several organizations in the same field vie for the same dollars. That means organizations have to offer a competitive salary to attract and retain the most dynamic and aggressive leader they can. The board of directors is likely to look at the salaries offered by similar organizations to match or better. Depending on its future goals, the board may want to recruit from government or private industry. It will have to come up with an even more attractive salary to lure from those ranks.

Total Package

An ED's salary is generally a reflection of the value the organization expects that person to generate. Moreover, the salary must be somewhat balanced with what the rest of the staff makes. The top position is generally a cap to other salaries, which sets the tone for all recruiting efforts. Finally, money is not the end of the salary discussion, as benefits, insurance and perks also play a big role in luring EDs.

Legal Guidelines

In some cases, the law may also play a role in how much a nonprofit can offer. To prevent excessive compensation, federal law makes a rather ambiguous pronouncement that nonprofits should pay "reasonable compensation," and that is an amount that would ordinarily be paid for the same services by similar organizations. In addition, some states have stepped in to place indirect regulations on nonprofit executive salaries. In New Jersey, for example, any nonprofit that receives state funding can only spend so much of that funding on the ED's salary. In California, nonprofits with operating budgets of more than \$2 million must have their boards approve the salary of the executive director and

the chief financial officer. This is a common practice already, but it signifies that government is increasingly interested in the affairs of nonprofits.

Strings Attached

Another important reason the executive director's salary is linked with an organization's budget is because organizations use the salary and budget to set a benchmark for the ED's performance. The salary and any raise often come with a mandate for the ED to bring in more funding, at least equal to his salary or increase it by the percent raise he receives. In addition, the executive has the burden of knowing that his increase in salary also means raising additional funds to increase the rest of the staff's salary. That's all in addition to purchasing resources, maintaining the office, and spending money on mission and core programs.

The Difference Between an Executive Director & a Chief Executive Officer

by Kimberlee Leonard; Updated June 29, 2018

Executive director and chief executive officer (CEO) are leadership titles in organizations. Each is usually the highest-ranking position in the organization and the one responsible for making decisions to fulfil the mission and success of the organization. The term executive director is more frequently used in nonprofit entities, whereas CEO is used with for-profit entities and some large nonprofits.

Roles of an Executive Director

The executive director is appointed by the board of directors and works with the board to develop the strategic plan for the organization. As leaders, executive directors must create the culture of their organizations. They are the foundation of motivating employees and volunteers, oversee the entire budget and marketing efforts, and encourage a positive company culture. Since most nonprofits work on limited budgets, an executive director must have a true passion for the mission that translates into getting operational needs met for less money. This is a unique stress almost always present in a nonprofit executive director's role. Executive directors grow organizations with great planning, limited financial resources and a large volunteer labor force.

Roles of a Chief Executive Officer

The chief executive officer is the highest-ranked employee of a for-profit company. This person is hired by the board of directors and reports to the board, while everyone else in the company reports to the CEO in one way or another. The board of directors reports to shareholders. The CEO must justify earnings or lack of earnings to shareholders via the board. The CEO runs the day-to-day operations and has a team to oversee various departments. While the CEO should see the trees in the forest, his goal is to make sure the forest is healthy and growing. As such, he might not be fully aware of lower-level

procedures and processes but understands the impact of those on sales, retention and service effectiveness.

Comparing an Executive Director and CEO

Every company is different, and thus the roles of an executive director and a CEO may vary based on the organization's need. Some nonprofits elevate an executive director to a CEO if the organization has grown in both revenues and paid staff. The role remains the same but the perceived clout of the CEO title versus executive director title aids in strategic alliances and fundraising opportunities.

CEO salaries range widely. A small corporation might pay a CEO a few thousand dollars per month while becoming established, while huge international corporations pay CEOs millions of dollars each year. Experience and a successful profit track record are the factors that warrant higher salaries. Executive directors, on the other hand, usually earn less because of the philanthropic nature of their organizations. The average executive director salary is \$113,002 annually.

The Typical Non-Profit Organizational Structure

by Lisa Magloff; Updated June 27, 2018

The exact structure of a nonprofit organization depends partly on where it is incorporated—some states have their own requirements for the number of directors or other officers of the nonprofit. However, the basic structure of a nonprofit is generally the same everywhere. The structure is divided into three functional areas—governance, programs and administration—and then further subdivided within each area, depending on the purpose and goals of the nonprofit.

Governance

Nonprofits are governed by the board of directors. The size of the board of directors can vary from three to more than 50. Each state has rules that set the minimum size of the board but the exact size of the board and the number of times that it meets each year changes from one organization to another, depending on the needs of the organization. Board members of nonprofits are generally not paid, but they may receive any compensation that is allowed by the organization's bylaws. The board is accountable for the policies of the organization and is given powers by the organizations' Articles of Incorporation. The board's work is coordinated by the chair and the board may organize itself into various committees responsible for carrying out different operations.

Administration

The administration is made up of the staff that oversee all programs. Nonprofit administration usually includes an executive director, or president, and office personnel.

The executive director is responsible for liaising with the board and for carrying out their instructions, as well as for overseeing the people who run the programs of the nonprofit. According to a study by Texas-based consultant Convio, this type of centralized structure is the most successful for nonprofits.

Programs

Most nonprofits are founded to carry out certain specific types of work, for example, running a homeless shelter or raising money to provide clean drinking water in developing countries. The organization is structured into various program areas to carry out this work and achieve its goals. Each program area may then have its own department head, or assistant director. Typical program areas may include fund-raising, operations, development, human resources, volunteer coordinator, marketing, or publicity and planning. The program heads report to the chief executive and may have any number of staff members under them.

Unique Management Areas

Nonprofits typically have several types of management areas that may not exist in for-profit companies. These may include fundraising and grant writing, volunteer programs and public policy. Some of these areas, such as fundraising, may be handled by the executive director, or an entire department, headed by an assistant director. Some nonprofit organizations may also have a program director, or assistant director, in charge of ensuring the organization is meeting ethical requirements set out in its bylaws and is liaising with the local community.

State Rules

Many states have rules governing the structure of nonprofits. These generally have to do with the number of directors who sit on the board. For example, in Texas, the Business Organizations Code requires nonprofit organizations to have at least three directors, one president and one secretary. It also states that the same person cannot be the president and secretary. Officers and directors must also be natural persons and not corporations. California only requires nonprofits to have one director although it is quite common for organizations in the state to have three or more directors.

The Difference Between CEO, President & Managing Director

by Ralph Heibutzki; Updated June 29, 2018

The corporate titles of chief executive officer, president and managing director carry distinctly different meanings. Chief executive officers serve as companies' strategists and cheerleaders, with the implementation of objectives left to senior management. Managing directors act like CEOs, but operate in the two-tiered corporate board setup characteristic

of British firms. Company presidents are more actively involved as managers, on the other hand, but also report to a board of directors that guides the organization's direction.

CEO Responsibilities

A chief executive officer sets the tone for a company's image, management and operations. At large corporations, the CEO may function more like a strategist, with other senior executives responsible for implementing his plans. At smaller firms, like retail stores, the CEO may also oversee budgeting, hiring, purchasing and day-to-day management. In either instance, a CEO faces constant pressure to help his firm achieve its long-term financial goals, or risk jeopardizing his future.

Company Presidents

At governmental agencies or nonprofit corporations, a corporate president may be more directly involved than CEOs in day-to-day management activities. At the Corporation for Public Broadcasting, for example, the president must report all significant activities and undertakings to the board of directors. The president also develops the annual CPB budget, and serves as chief spokesman. The board approved this organizational structure in May 2006, to clarify the roles and responsibilities for all major officers, including the president.

Managing Directors

The managing director is a British phenomenon who acts like a CEO, but in a different environment than his U.S. counterpart. About 79 percent of British firms split power between CEOs and an independent board chairman, The Wall Street Journal noted in March 2009. The director is also bound by the Companies Act of 2006, which requires him to consider the social and environmental consequences of his decisions. The act marked the first time that such guarantees became part of British law, according to a Corporate Responsibility Coalition analysis.

Notable Trends

Emboldened by corporate abuses, a shareholders' movement to separate CEOs from holding additional titles like chairman or president gained ground during the late 2000s. As of 2009, 37 percent of firms listed in the Standard & Poor's 500 stock index separated the titles, versus 22 percent that did so in 2002, according to The Wall Street Journal. Proponents contend that separating the titles allows CEOs to run the company, leaving the chairman to run the board. Critics argue that such setups often trigger power struggles, particularly if an outside chairman is chosen to run operations.

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